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J.

WORKING PAPER

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FAR EAST/PACIFIC BRANCH

INTELLIGENCE HIGHLIGHTS NO. 49
20 April - 26 April 1949

SECTION I. SUMMARY OF FAR EAST TRENDS AND DEVELOPMENTS

A dispute between extreme and moderate factions has caused a split in the leftist Japan Farmers Union (p. 2). Establishment of a single exchange rate for the yen this week presents many Japanese industries squarely with the problem of rationalization or collapse (p. 2).

Reorganization of Korea's Ministry of Defense has resulted in a new post for Japanese-trained Major Gen. Chai (p. 3). Meanwhile, Government collections of summer grain face legislative opposition (p. 3).

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[REDACTED] Ex-emperor Bao Dai's impending return, meanwhile, has inspired ostensible acceptance of Vietnam unity by the newly-elected Cochinchina Assembly (p. 4).

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A new plan for the raising of additional Government forces from the border peoples of Burma seems to offer little hope for restored order (p. 5).

While preliminary discussions between the Dutch and Republicans at Batavia still leave complex problems unsolved, the atmosphere is not hostile and both sides agree that delay in settlement is dangerous (p. 6).

The Chinese Communists have met little opposition to their renewed offensive and the long-awaited crossing of the Yangtze has brought them control not only of Nanking but of most of the eastern Yangtze valley (p. 6). While the new advances have resulted in at least temporary solidarity in the badly-shaken Nationalist ranks, there is reason to believe that the Communists, despite serious economic problems, will bring temporary peace and prosperity to the newly-"liberated" area (p. 8-9).

The marginal notations used in succeeding sections of this Weekly ("A", "B" or "C") indicate the importance of the items in B/FE opinion with "A" representing the most important.

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JAPAN

Japan Farmers Union split--As a result of conflict during preparatory meetings, the long-delayed convention of the leftist Japan Farmers Union, (JFU), which began on 22 April, has been split into two camps - Communist and Farmer-Laborite delegates on the left and left-wing Socialists on the right. The division came when minority rightist members of the left-controlled JFU Central Committee walked out after being overruled in their opposition to leftist delegates whose qualifications they had challenged. "B"

Although JFU Chairman KURODA Hisao, Farmer-Laborite boss, will attempt a neutral course, departure of the predominantly Socialist members of the JFU through this right-wing bolt can be expected to result in the development of a definite pro-Communist union orientation, particularly since Farmer-Laborite policies are susceptible to Communist exploitation. Departure of the left-wing Socialists further implies an end to Socialist attempts to maintain ties with KURODA's group, themselves former extreme left-wing Socialists. Unless the self-exiled rightists can reach an agreement with the National Farmers Union, organized by former right-wing Socialist leader, HIRANO Rikizo, they may establish still a third farmers' union.

Single Exchange rate set--A further step in the shock treatment of Japan's economy occurred with SCAP establishment of a single exchange rate of Yen 360 to the dollar on 25 April. Replacement of the cumbersome multiple-exchange rate by the new single rate will force many marginal industries to rationalize or expire. Hardest hit will be raw silk producers, who have been operating at a loss despite indirect subsidization through an exchange rate of 420 Yen to the dollar. The shipbuilding industry may be forced to close down 30% of its yards while staple food importers will need a direct subsidy of a reported 32 billion Yen to continue the present level of imports. "B"

Producers that will continue to enjoy profits under the new exchange rate are the metal (machine tools and rolling stock), chemical and light industries (watches, cameras, and bicycles). The single rate, long expected by Japanese business and government circles, not only will aid in long-range reestablishment of foreign trade on a sound basis but also will be useful in forcing a desirable rationalization of the Japanese internal economy.

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KOREA

Defense Ministry reorganized--President Rhee has signed an executive order abolishing the positions of Vice Minister of National Defense and the Supreme Chief of Staff. A Joint Chiefs of Staff organization is to be substituted and Army and Navy Chiefs of Staff will report directly to the Defense Minister. Although Defense Minister Shin states the move is designed to simplify Ministry operations, it also permits assignments to the field of superfluous officers now at Defense Headquarters. Further, the action enables Rhee to effect quietly a long-desired removal of the former Supreme Chief of Staff, Chai Byung Duk, a member of the aggressive Japanese-trained Army officer clique. Maj. Gen. Chai will be given the ordnance command, a position in line with his Japanese Army experience.

"B"

NEWS NOTES

Grain collection--The National Assembly has passed a measure which suspends the present grain purchase law until 31 October 1949 and establishes a free market in rice. Penalties are provided for hoarding or profiteering. Although President Rhee probably will veto this bill, the Assembly will continue to oppose any form of government rice collection. A successful summer grain collection, therefore, appears extremely doubtful. Failure to collect summer grains will further aggravate the government's shaky food position and impair the effectiveness of ECA's capital development program.

Troop withdrawal--On 18 April President Rhee announced that discussions were underway between the Republic of Korea and the US to establish a date for withdrawal of US forces from southern Korea. To date, the northern Korean propaganda outlet, Radio Pyongyang, has not commented directly upon Rhee's announcement, although nearly every broadcast beamed to the south continues to call for concerted Korean efforts to drive US forces out of the country. It is probable that Radio Pyongyang is awaiting instructions from Moscow on what new line is to be taken in the light of Rhee's announcement. It is to be expected that the Communist puppet regime will take complete credit for having forced the eventual US withdrawal and will jubilantly announce that Korea, through Communist efforts, has been brought one step closer to "unification."

INDOCHINA

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INDOCHINA (continued)

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Current status of Bao Dai plan--Following a favorable 55 to 6 vote by the Cochinchina Territorial Assembly on a motion recommending unification of Cochinchina with Tonkin and Annam, former Annamite emperor Bao Dai left France for Indochina, expecting to arrive there on 28 April. The motion includes a recommendation to the French Assembly that the present colonial status of Cochinchina should be abrogated and Cochinchina joined to the "associated state of Vietnam." Also included was a special paragraph providing for the invalidation of the proposed unification in case of any change in the status of Vietnam within the French Union. Thus, in the event the other states become Communist-dominated, a Ho Chi Minh - Bao Dai rapprochement is effected, or Vietnam withdraws from the French Union, Cochinchina has reserved for itself the opportunity to secede from Vietnam and become a full-fledged associated state of the French Union independent of its two neighbors. Many Vietnamese members of the Territorial Assembly objected to this provision and contended that it would cloud the clear declaration of unity and offer an avenue of escape to die-hard opponents of federation. However, President Xuan of the Provisional Central Government and Bao Dai's cabinet chief, Buu Loc, both indicated acceptance of the entire motion on behalf of the former emperor and their influence effected the final passage.

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Perhaps even more significant than the inclusion of the "withdrawal" provision was a rider petitioning Bao Dai for a special status for Cochinchina allowing separate assemblies and a "special institution" wherein French residents might voice their opinion on economic matters. Although

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INDOCHINA (continued)

the proceedings of the Assembly seemed to indicate a surprising amount of Franco-Vietnamese cooperation and better control by moderate French elements over the extreme colonialists, it appears that the special provision and the petition provide definite leverage for certain French elements in Cochinchina and a real danger to the effective unification of Vietnam.

Meanwhile, former emperor Bao Dai must remain inactive in Indochina until the French Parliament reconvenes on 17 May and considers approval of the new status of Cochinchina. The former emperor is expected to hold conversations with political leaders and lay the groundwork for his government, but he has repeatedly stated that his regime cannot function until the French Assembly has approved unification of the three Kys. Although Bao Dai is reportedly encouraged by the vote of the Territorial Assembly, his efforts to create a workable government will be harassed by the protest demonstrations and increased guerrilla action which can be expected as retaliation from Ho Chi Minh's forces.

BURMA

Government plans frontier force--The Burmese Government, in a new plan to restore peace and stability, has proposed the raising of ten additional Army battalions composed of frontier peoples, mostly Kachins, in the hope that this fresh force would check the deterioration of the military situation. Although Prime Minister Thakin Nu stated that India and Pakistan have agreed to provide the necessary material, he has requested additional military aid from the US. "B"

If the Burmese Government had developed such a force several months ago, instead of devoting its efforts to the raising of ineffective and ill-disciplined police levies, the action would have been more effective. Ten such frontier battalions, if properly organized and led, could not only have been effectively employed against Communist and PVO insurgents, but their activities would have been less likely to antagonize the Karens and precipitate the Karen revolt. Apparent optimism over the present scheme, however, is believed to be unwarranted for several reasons. First, it is extremely doubtful if 7-8,000 more troops will be sufficient to do the job presently at hand. Second, although India and Pakistan are apparently making an initial contribution to equip this force, continued imports of foreign materiel will be necessary to maintain it, and such imports are by no means assured. Third, the entire venture is being planned independently by the Burmese War Office, without the aid and advice of the British Military Mission, so that if the envisioned frontier force actually emerges,

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BURMA (continued)

in all likelihood it will be poorly trained and organized. Fourth, it is questionable how long a predominantly Kachin force will remain loyal to a Burman Government. The Kachins presently in the Army have shown little enthusiasm for fighting the Karens and some Kachin troops have even deserted to the Karen insurgents. It is further reported that the Kachins as a whole are dissatisfied with conditions in Burma and it is not entirely certain that they would leave their hills for a prolonged period to engage in a struggle not of their own making.

INDONESIA

Hatta - Van Roijen discussions--Republican Premier Hatta arrived in Batavia from Bangka Island on 24 April in order to hold informal discussions with Van Roijen, head of the Netherlands Delegation. Preliminary reports indicate that Hatta and Van Roijen have made much progress toward an understanding of each other's position. Current difficulties center around Hatta's unwillingness to consent to a binding agreement on (1) a cease-fire order, (2) Republican participation at a Hague round-table conference, and (3) troop withdrawals envisaged in the January 1949 Security Council's Resolution. Van Roijen, however, is willing to approach his government on the possibility of accepting Hatta's personal assurances if they are formalized through the UN Commission for Indonesia. While Van Roijen would make no promises to Hatta on Republican restoration throughout the whole Jogjakarta Residency, he will consider withdrawal of Dutch troops from the city and its immediate environs as an initial step. The Dutch Delegate is also willing to assure Hatta that no more new Federalist states will be carved out of former Republican territory.

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Although the problems still confronting the two parties are complex, current discussions at Batavia mark a decided improvement in Dutch-Republican relations. Van Roijen and Hatta agree that delay in settlement of the Indonesian problem will benefit only Communist and extremist elements, and both appear to be sincere in their desire to restore stability to the area.

CHINA

Communists occupy Nanking, most of eastern Yangtze valley--On 20 April, immediately following Nationalist rejection of Communist surrender terms, the Red armies, in compliance with MAO Tze-tung's and CHU Teh's directive of the same day ("bravely to advance...destroy the reactionary forces...liberate the people of the whole country"), effected their long-

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awaited crossing of the Yangtze river. Faced with only paper opposition, and aided by pre-arranged and voluntary defections at key points, the Communists rapidly fanned out from initial bridgeheads near Wuhu and Kiangyin, to the west and east of Nanking.

On 23 April, Red forces crossed the river from Fukow and took over Nanking. Thus the capital of the Republic of China for over 20 years was unceremoniously and completely abandoned to the Communists. Ironically, the actual occupation of Nanking was accomplished by an ex-Nationalist unit under WU Hua-wen, who had "gone over" at Tsinan some 7 months earlier.

Meanwhile, the principle Communist field forces, together with guerrillas, were moving down the railroad toward Shanghai and across country toward the Chekiang-Kiangsi rail line. The former force reportedly took Soochow and is now 15 kilometers northwest of Shanghai. Other reports indicate that the Communists have already occupied Kashing, on the Hangchow-Shanghai railway; if there, this deprives Nationalist troops in refugee-clogged Shanghai of their last overland route of retreat.

In the five days since the outset of this lightning Communist drive, there has been no opposition from the fleeing Nationalists who seem far too intent upon getting safely into Shanghai or behind their new defense line to offer any present resistance. This line is anchored on Hangchow and follows the Chientang River west.

Widespread and vocal opposition of Shanghai's populace to making that city the scene of bitter fighting plus the low combat efficiency and morale of the garrison, coupled with dearth of "hard money" pay for the troops make it extremely doubtful whether any effective resistance can or will be offered there, despite loud assurances of the Military that the city will be defended to the last man. The Communists may not wish to take the city with its manifold problems immediately, being presently content with sealing off the Whangpoo River to prevent a sea escape by TANG En-po and his forces. Rather than fight, TANG (under the direction of CHIANG Kai-shek) can be expected to make every effort to evacuate all the troops he can by land, sea, and air, leaving only local militia; those remaining cannot be expected to make any effective last-ditch stand. It is highly doubtful whether the Nationalists can or will regroup their units in an attempt to stabilize a front along the Chientang River, but will probably continue to withdraw south toward Canton or Taiwan. Accordingly the question in the Hangchow-Shanghai sector is not whether the Communists can move into and easily occupy the entire area, but whether the Communists can cut off TANG's forces and prevent his escape south.

On to the west, in the Hankow sector, fighting has not yet broken out. Communist action to seal off this area is expected soon; such an operation has long been anticipated by the government commander in the sector, PAI Chung-hsi, who has been gradually withdrawing from the Hankow area for some time. The only other action was carried out at

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Taiyuan, where the city fell to the Communists after a 5-hour assault. Taiyuan's loss very probably spells the early abandonment of Tsingtao, which has now lost its chief strategic significance as a base of air supply for the Shansi capital.

Feeble Nationalists show greater political cohesion--Under pressure of the new Communist offensive, Nationalist leaders are inclining toward greater political cooperation at least temporarily. Acting President LI Tsung-jen's decision to reject the Communist surrender terms was supported by various regional leaders and by the Kuomintang groups long committed to an "honorable peace" or continued resistance. Following LI's recent conference with CHIANG Kai-shek in Hankow, the National Government was able to announce a somewhat authoritative program for a "fight to the end."

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LI's prestige has suffered, however, not only because of his failure to make peace but also because CHIANG has declined to clarify his position as "retired" President. The Acting President has announced that he will accompany his ministers to Canton but unless he can obtain full presidential authority without CHIANG's interference, he may withdraw to Kwangsi province and continue resistance on a regional basis. Meanwhile, right-wing Kuomintang groups reportedly are preparing the way politically for CHIANG's possible return to power. Should CHIANG decide to heed their appeals, his direct authority probably will be felt only incompletely, with little popular support in Southeast China and Taiwan. As a result, the National Government would assume more and more the character of a regional regime, and its claim for continued recognition by foreign powers will become more tenuous.

Communist intransigence in foreign relations--The Communist action last week in firing upon four British warships in the Yangtze suggests that they are willing to risk reprisals in order to gain credence for their promise to protect China from "imperialist aggression."

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In addition to their commitments as Communists, the Chinese Communists are sensitive as Chinese about the reputation of the ordinary Chinese politician or soldier for compromising his position after promise of gain or threat of force. In recent dealings with the Nationalists, notably in the "peace" negotiations, the Communists have not followed the traditional Chinese practice of asking twice as much as they were prepared to accept, but, on the contrary, have meant exactly what they said. It seems probable that the Communist attitude in conducting foreign relations will be similarly intransigent. This does not mean that the Communists will persecute US citizens in China, or that they will necessarily seal up the US Embassy in fallen Nanking. It does imply, however, that US diplomatic representatives in China will encounter considerable difficulty in their work. In addition to being prepared to take action against foreign armed forces, the Communists are sincere in their denunciation of "traitorous treaties," and will doubtless carry

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out their threat to repudiate or attempt to revise most if not all of the existing Sino-US agreements.

Communist Occupation Problems in the Yangtze Valley--The Communists are confronted with the problem of occupying half a dozen large cities at once in areas more densely populated and with far more industries than heretofore encountered. The Yangtze Valley cities of the Wuhan district, Changsha, Nanchang, Nanking and Shanghai represent the major industrial region in China. These cities have experienced a general breakdown in government, finances and public utilities, aggravated by a large influx of refugees.

If Communist procedures in Tientsin and Peiping are any guide, it will be several weeks before Communist policies or "provisional" decisions are made for the operation of these newly-occupied cities. While this delay will merely continue the economic stagnancy in the last few months, it will nonetheless render the eventual Communist task of organizing the resources and personnel of government and industries in the Yangtze cities more difficult.

Several favorable factors will aid the Communist takeover, however. They will find general nonresistance to their occupation. Officials on the working levels have largely remained at their posts and will be guided by high-level Communists who, by now, may be more familiar with the problems of urban areas. The opening of communications inside the Yangtze Valley region, and between Central and North China as well; will enable the Communists to feed the urban populations and supply raw materials (coal, cotton, etc.) to the factories from accumulated inland and northern commodity stocks. There is plenty of food and cotton in the rural areas. The nation's coal mines are mostly in North China, and if production even approximates that reported by the Communists, stockpiles awaiting shipment to Shanghai and Nanking apparently are large. Not only will raw materials be supplied, but the markets in the cities of North China and throughout the rural areas of Central and North China will be restored to the textile and flour mills in the Yangtze Valley. This will result in a fairly immediate increase in the output of plants now operating and will permit idle plants to get into production.

The Communists appear to be capable of restoring order which implies restoration of public utilities. The problem of regenerating economic activity may prove to be more difficult, particularly in connection with the attainment of a stable financial structure and monetary system as well as the revival of foreign trade. While the Communists are insufficiently prepared to run the Yangtze Valley; their occupation promises peace, law and order, and unification in Central and North China for the first time in several years. The initial enthusiasm of the people toward these promises will, in the short run, bolster the Communist regime despite its many shortcomings.

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